CHAPTER XXIII

SPECULATION IN JUTE MARKETS

Method of enquiry.

We have tried to ascertain the types of operations in the market and assess the extent to which before their closure there was manipulation in the price of jute goods all round which depressed prices. Government had deemed it necessary to close the *Fatka* market in jute goods in December 1952, as such speculation was considered detrimental to the export trade. At the time our enquiry commenced, it was hardly possible to obtain enough direct evidence of happenings of a year earlier in a market where by tradition and usage much of the business is transacted orally and not reduced to writing. The nature and contents of transactions in the futures market and the mass psychology and behaviour of parties operating therein are not such as could be properly analysed by a mere *post facto* examination. We could not therefore adopt the methods of a judicial enquiry into the case and have had to rely to a great extent on the testimony and opinion of independent persons capable of making a contemporary objective assessment of the events that took place, besides obtaining the primary evidence of certain parties who figured prominently in the futures market. We had written replies from a large number of witnesses and also had the benefit of consultation with a number of industrialists and experts including Shri B. N. Chaturvedi, President of the Calcutta Stock Exchange. We also examined some of the parties who were connected directly or indirectly with the operations in the futures market. The views we have collected are both varied and conflicting but the more important points are set out below and thereafter we state our own conclusions.

Views of Trade Associations.

The I.J.M.A. described the operations in the futures market in November 1952 as "in a sense an attempt to corner the market which resulted in violent price fluctuations and thereafter a disastrous decline in the prices of raw jute and jute goods. These operations did a vast amount of damage to the market. With regard to the type of operations it is sufficient to say that they represented a struggle for mastery of the market between bears and bulls." As desired by the Commission, the I.J.M.A. amplified their views in a letter dated 27-2-1954 (which is included in the separate annexure sent to Government). The Calcutta Jute Fabric Shippers Association, the Gunny Brokers Association and Jute Fabric Brokers Association as well as a number of mills also expressed similar view and consider the operations in the *Fatka* market as extremely detrimental to the interests of the trade and its closure justified. On the other hand the Indian Chamber of Commerce stated that there was no undue depression in prices and manipulation was confined to only hessians 40" × 10 ozs. that there was an all round depression both in raw jute and jute goods prices and if a dispassionate examination is made it would be found that depression was severe in the case of goods not dealt with in the futures market, namely the East India Jute and Hessian Exchange. They pointed out that prices of hessians, B Twills and raw jute were lower in December 1952 than in April 1952, that the closure of the market did not arrest this trend at all and that the fall was even more accentuated after the closure and therefore not correctly attributable to the operations in the futures market.

Nature and market effects of the corner in hessian 10 oz.

The Gunny Trades Association, the East India Jute and Hessian Exchange and others including Shri H. P. Bagaria, a Director of the Exchange, Shri C. S. Rangaswami, Editor, Indian Finance, Shri Viswanath More, Shri N. L. Kanoria, Shri Pondy Nand Lal Atal and Shri Chaturvedi, who had first hand knowledge of conditions that prevailed in the futures market in 1952, have pointed out that a large number of speculators combined and cornered one construction of hessians only, namely 40" × 10 oz, for November 1952 settlement, at a time when world prices of commodities and prices of jute and jute goods in general were on the decline and the prices of this construction which rose during the last week of the delivery period, fell sharply thereafter when other constructions remained unaffected.

The following table of prices illustrates the price trends of hessians 40" × 10 oz. as compared to other jute products and prices in the spot and forward market during the period immediately preceding and following the closing period. It shows that the *Fatka* operations by a few big speculators was confined to one product only and did not affect prices of jute goods in general or unduly depress the price of raw jute:

Date	Jute Assam Bot. per md.	B Twill per 100 bags		Pucca Market: Hess. 40" 7½ oz. per 100 yards.		Pucca Market: Hess. 40" 10 oz. 100 yds.		Fatka Market: Hess. 40" 10 oz. per 100 yards.		
1952	Dec. Jan. due Rs.	Nov. due Rs.	Dec. due Rs.	Nov. due Rs.	Dec. due Rs.	Nov. due Rs.	Dec. due Rs.	Nov. due Rs.	Feb. due Rs.	Difference or Satta Rs.
Nov. 20	24/8	105	1p5/8	39	38/14	49/8	49/4	49/6	48/8	-/14/-
„ 21	24	101/8	102	38/8	38/4	49/10	49/4	49/10	48/2	1/8
„ 22	24	100	100	37/4	37	49/2	48/4	49/4	47/8	1/12
„ 24	23/8	100	100	37	36/12	49/2	48/2	48/14	47	1/14
„ 25	23	100	100	37/4	37	49/14	48	49/14	46/14	3/-
„ 26	22/8	95	95	35/12	35/8	48/12	46/12	48/12	45/14	2/14
„ 27	22/8	98	98	37	36/12	50/6	47/10	50/8	47	3/8
„ 28	22/8	94	94	37	36/12	51/8	46/12	50/6	45/12	4/10
„ 29	22/8	95/8	95/8	35/12	35/8	53/8	46/12	53/10	46/-	7/10
due date	22/8	94/8		35/12		53/8		53/10		
Dec. 2	23	..	95/8	..	36	..	47/4	..	46/2	..
„ 3	22/8	..	90	..	34/4	..	47/10	..	45/6	..
„ 4	22	..	89	..	33/8	..	44/4	..	43/7	..
„ 5	22	..	90	..	33/12	..	44/4	..	43	..
„ 6	22/8	..	88	..	32/8	..	42/14	..	41/12	..

The table of prices given above clearly indicates the wild manipulated fluctuations caused by those who attempted to corner hessians.

The Gunny Trades Association have accordingly stated as follows:—

> "Assam bottom jute ruled at Rs. 24/8 per maund on 20th November 1952; at Rs. 22/8, on the November due dates; at Rs. 22/8 on 6th December 1952. There is a decline in the price of raw jute. B. Twill ruled at Rs. 105 per 100 bags on 20th November 1952, at Rs. 94/8 on the November due date and at Rs. 88 on 6th December 1952. There is a steady decline in prices. The price of Hessian 40" × 7½ oz. ruled at Rs. 39 per 100 yards on 20th November 1952 and at Rs. 35/12 on the November due date and at Rs. 32/8 on 6th December 1952. The prices of this construction also steadily declined. But hessian 40" × 10 oz. which was the only construction for speculation tells a different story. On the 20th

November its prices ruled at Rs. 49/8 per 100 yards. On the November due date it ruled at Rs. 53/8 but on 6th December 1952 it came down to Rs. 42/14 per 100 yards.

On the other hand the difference or the (Satta) between the Fatka, quotation due November and due February for hessian 40″×10 oz. was only 14 annas per 100 yards on the 20th November. But on the November due date the margin was as wide as Rs. 7/10."

The Bharat Chamber of Commerce state that—

"Some parties who were involved and against whom the market was moving exercised influence to get the market closed."

This view was supported by a few others including Shri H. P. Bagaria and Shri Pondy Nand Lal Atal. The Bengal National Chamber of Commerce contend that there was no justification for the closing of the futures market in December 1952 and state that the assumption of the West Bengal Government in justification of the action taken by them, namely that the price of raw jute was being depressed by speculative trading in the market, is unfounded. At that time the futures market (controlled by the East India Hessian Exchange) was confined to jute goods only, and there was no fall in the spot price of hessians or of other jute goods or jute during the period that speculation is alleged. The fall was due to other trends that had started even before the reopening of the futures market in April 1952.

Evidence of Shri H. P. Bagaria

Shri H. P. Bagaria, who was then the Director of the East India Jute and Hessian Exchange, has given his version of the speculative operations in a confidential letter to us dated 18th January 1954 which we are appending as a confidential annexure to our report to Government. The broad facts outlined by him, as distinct from his own surmises, have received confirmation from independent evidence of other persons connected with the market operations.

According to this version transactions for November 1952 settlement were started on 4th August 1952 and for February settlement on 3rd November. In August 1952 a party connected with a prominent jute mill managing agency house delivered a large quantity of 40" × 10 oz. hessian mostly of the 'C' group mills against sales outstanding in the futures market. The total quantity tendered was 33·8 million yds. and the goods were taken delivery of by a prominent export house through their brokers. It appears that the party who took delivery in August had a large quantity of hessian sales outstanding for November and wanted to tender back all they took up in August settlement. Between mid-October and 20th November a decline in prices had set in due to various reasons. Some have attributed this to operations by bears who after depressing prices for November delivery could have repurchased at lower rates. With reference to opening and closing prices of November and February settlements (from 1st to 29th November), Shri Bagaria has pointed out that in the beginning the February position was at a small discount as compared to November and in normal course the entire November position would have been settled partly by actual delivery and partly by transfer to February at a small difference, the discount being about 12 annas for 'forward'. But at this stage a strong syndicate is reported to have been formed to squeeze the sellers for November settlement. Generally towards the third week of a settlement month, the buyers and sellers transfer the bulk of their outstanding business to the next settlement and only such transactions are kept outstanding against which actual delivery is to be given or taken. The party who wished to make large deliveries for November settlement no doubt believed that under the weight of heavy deliveries the premium for spot will disappear and buyers will be forced to carry forward their purchases by paying a premium for the next settlement. It was at this stage that bull syndicate came into existence and expected that if they obtained finance to take delivery of two to three crore yards, having regard to their assessment of Mill production and stocks, that the bears will be compelled to cover their sales at the price dictated by the bulls and thus there was a good chance for the latter to make money on the balance of the transactions. As a result there was aggressive buying of November contracts from 20th November and the difference between the November and February prices which stood at 12 annas on that date began to widen to 14 annas discount on the 21st, Rs. 2 on the 22nd, Rs. 2-12-0 on 24th, Rs. 2-14-0 on 25th, Rs. 3-6-0 on 26th, Rs. 4-12-0 on 27th and Rs. 8 on the 28th.

On 29th (30th being a holiday), all transactions for November were settled mostly by actual delivery and a small portion by buyers accepting the spot rate of the day. Heavy purchases on 28th had pushed the November contract price by Rs. 3-8-0 per 100 yds. Shri Bagaria has attributed this extremely aggressive buying on the last day of settlement as due to the bull syndicate either expecting to receive a very small quantity of goods against their purchases and gaining thereby or their being confident of making complete settlement of their outstanding transactions at the closing rate of the 28th. In normal course the amount of goods tendered against November settlement would not have exceeded a month's production, *i.e.* about 80 million yds. of all types of hessian —55 million yds. being hessians 10 oz. The aggressive selling on the last two days and the forcing up of prices on account of buying by the bull syndicate appears to have forced the sellers to explore all avenues of getting P.D.Os. from jute mills and for settlement of their liability, sellers seem to have been able to obtain and deliver P.D.Os. in excess of actual stocks. Shri Bagaria has explained that when there is a corner the usual recourse is to defer shipment either with the consent of buyers or by paying them a penalty as provided for in the contract and the released quantity is made available for tendering in the futures market. He has also stated that it is common for mills to issue P.D.Os. in anticipation of production on hand and for forthcoming week or fortnight. He has alleged that the attempt to manipulate prices on the part of the bulls did not succeed and as they had to take delivery of a large number of P.D.Os. The accumulation of large quantities in their hands the resultant attempts to sell to foreign buyers at prices even considerably below Calcutta prices and the poor shipments to Argentine, caused a decline in the price of hessian which also affected the price of raw jute. But this was *after* the futures market was closed on 18th December *on the ground that manipulations therein had* been responsible for the fall in prices.

Evidence of some parties connected with market operations.

Another version whose basic facts do not differ but which gives a different angle on the events has been given to us by two prominent parties who actually operated in the market. According to them the prominent operator in the futures market who held a large quantity of ready hessians and had a dominating position in the market turned bearish and was out to depress hessian prices. It was believed by a wide section of opinion comprising mill-owners, exporters and even public men that this should not be allowed to happen in the interests of the jute export trade, as foreign buyers were sitting on the fence watching the fall in the market. The move to bring down prices would also have been construed as an attempt to force Government to bring down the hessian duty, a matter on which the market always took a view. Accordingly a bull group was formed of shippers and dealers. Some industralists and mill interests also operated on a modest scale in the market. It was understood, the object of the group was to prevent prices being brought down by the bear raid and endeavour to keep up the November prices. It was expected that having regard to the stocks and the normal production capacity of the mills, not more than 5½ crore yards of hessian would be available for delivery of which one firm held about 3 crore yds. Since towards the settlement day (29th November) they would be unable to deliver hessians if larger purchases were made by the bulls, actual delivery of the full quantity by the bears would be frustrated. As prices would inevitably fall in December, the bulls would be able to collect a neat *Fatka* gain on settlement with the bears, who would be unable to tender the quantity required. As the bear raid intensified on about 27th November and on 28th they sold over 2½ crore yards of jute goods which were not there, it became incumbent on the bulls to keep the game up by taking these offers also. Necessary bank finance for this large scale operation was emergently obtained. By 28th November the group who claim to have started with wider objectives of a price support for gunnies which they believed was in the public interest, had admittedly become more interested in profit taking, as no doubt some members were even from the beginning. By the time it was well known that mills were also in the game and had been issuing P.D.Os. without stocks. The bulls were out to cut their losses as the new situation of P.D.Os. being offered almost to the full against purchases made by them, made it inevitable for bulls to take delivery and face a future slump in price on resale. In this context despite the personal view of the Chairman of the Exchange that prices over Rs. 51 for hessian 100 yds. were not reasonable as actual sale price of goods, a notional settlement price of Rs. 54 was allowed to be fixed by the Exchange, as a penalty against those who had over-sold. It appears sellers produced P.D.Os. for practically the entire quantity and only about 30 lakh yds. were settled by payment of margins. The members of the bull syndicate incurred heavy losses and it appeared the successful bear operator also was able to make a profitable repurchase of P.D.Os. when prices came tumbling down in December and the futures market was eventually closed. The two prominent witnesses we have examined averred that as far as they knew it, neither before 30th November 1952 nor thereafter was any influence brought to bear on Government to get the market closed; nor were they personally in favour of such a step. They stated that the suggestion in this regard in the reply of the Jute and Hessian Exchange and by others, was unwarranted.

The following factors in the bull-bear tussle call for comment. The chance of *Fatka* gain attracted a very large number of operators including traders as well as mill interests. Very large quantities, *i.e.* 38·6 million yards against 57·6 million yards were taken delivery of on behalf of one or two parties by one firm of brokers. This appears to have been allowed to happen notwithstanding restrictions limiting the operation of any one broker or client upto Rs. 25 lakhs. Admittedly Directors of the Exchange knew that the operators and traders were likely to do business beyond their capacity but yet neither by way of advice nor admonition were any concrete steps taken to check them. Another feature is that substantial bank finance at a low rate of interest to meet obligations in the futures market was provided. A prominent Scheduled Bank advanced on P.D.Os. substantial sums to three parties including dealers and brokers. It was noticed that an account was opened by one party on the 27th of November 1952 and cheques for over 2½ crores were issued by him on 29th November though the necessary securities were lodged with the bank only on the 2nd December. This cheap credit facility was specially authorised on easy terms (4½ per cent. interest) on the authority of the head office of the bank. We have examined the party, who was the Branch Manager at the time these transactions occurred and append as a confidential enclosure the details regarding his evidence. Although no loss was stated to be incurred by the bank and settlement was effected through the influence of important parties concerned, we are of the view that the way in which cheap credit is made available to speculative transactions of this type requires a very careful examination by the banking authorities in the country.

On the sellers' side, the obligations seem to have been met by delivery to the fullest extent possible and they were also able to repurchase at a discount in December, when prices had fallen. In the process of fulfilling obligations to deliver goods both the sellers and dealers (and they could not have done this without the help of the mills) appear to have even brought back goods for which shipping instructions had been issued to cover P.D.Os. issued by mills. The name of one prominent shipper was mentioned in this connection. The representatives of the Jute Fabric Shippers Association told us that such cancellation was a contingency permissible under the terms of business. The I.J.M.A. have also replied that the quantity so offloaded in November—December was only 21 lakh yards as against 1096 lakh yds. of normal sales for shipment. We are drawing attention to this as one of the weaknesses in the present arrangements for sale of goods against shipment or delivery, whereby manipulations could be effected to suit the interests of the seller if he were to operate extensively in the speculative market.

It also came to our notice that one prominent mill was unable to deliver a substantial quantity due on certain P.D.Os. issued by it. The holder of the P.D.Os., a member of the bull group, whose corner failed, was apparently able to obtain a cash settlement with the defaulting mill company, thereby to some extent cutting his losses which had not been anticipated and were due directly on account of the unexpected issue of P.D.Os. for goods that were not there. He also averred that as many as 14 mills, 12 of them non-Indian managed ones, had over-issued P D.Os. and had avoided or delayed inspection of goods for many weeks so as to cover up the position eventually but that due to various circumstances he could not clinch the issue. This raises the general issue of the danger to gunny markets and their financial credit arising from reckless issue of P.D.Os. without coverage.

Some witnesses have alleged that this case of bulls being hoist with their own petard was a sequel to a deliberate attempt to create fluctuations of a kind which would render the closing of the forward market by Government necessary. They suggest that if the closure had taken place as on past occasions, on the settlement day of the contract month with a liability to settle pending contracts on the basis of the prices on the last day, it would have given the bulls a tidy *Fatka* premium at the expense of the sellers. Others have said that the reputed cause of *this bout of speculation was a challenge between two big* market operators.

Our conclusions.

The factors which in our opinon facilitated this orgy of speculation were the inadequacy of regulations of the Calcutta Jute and Hessian Exchange to take action to prevent overtrading and cornering when they were apprehended or occurred. Absence of a proper code of ethics among directors and their lack of forbearance in taking part in the speculation themselves was a favouring circumstance. Mr. Bagaria agreed that Directors could have kept a watch and instead of merely receiving the margin of deposit, could have called for a settlement directly when it was known that the transactions for November delivery had exceeded the capacity of the mills, a fact which the operators as well as the dealers were doubtless aware. The laxity in the system of issuing P.D.Os. without full cover of goods enabled the mills or their managing agents also to speculate in the hope of netting as large a profit as possible. The case also discloses a serious risk to the financial system of the country if banks should also undertake the risk of financing transactions in speculative markets without any other collateral support than the P.D.Os. themselves and this in a situation when these documents were issued without due credit warranty.